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Counsel for the Debtor, China Natural Gas, Inc.

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:

CHINA NATURAL GAS, INC.,

Debtor.

Chapter 11

Case No.: 13-10419 (JMP)

PROTOCOL AGREEMENT

As directed by the Court at the hearing held on November 13, 2013, the Debtor, along with Abax Lotus Ltd. and Abax Nai Xin A Ltd. (collectively, "Abax"), hereby agree to the following protocol for the sharing and discussion of restructuring and/or funding opportunities for the Debtor's estate:

- (1) All information shared or exchanged by and amongst Abax and the Debtor shall be subject to the Confidentiality Agreement executed by the parties, dated as of September 19, 2013.
- (2) The Debtor's professionals and Abax's professionals will promptly meet and confer regarding any disputes over implementation of this protocol and will make themselves available for a status conference with the Bankruptcy Court as necessary to resolve any issues. Before any dispute with respect to compliance with this protocol is brought before the Court, the professionals for the Debtor and Abax shall first meet and confer in a good faith effort to resolve such dispute.
- (3) The Debtor and Abax will cooperate to explore the interests of any third parties in a restructuring transaction by, without limitation, promptly entering into confidentiality agreements as necessary, making appropriate decision making personnel and advisors available for meetings, and responding promptly to reasonable due diligence requests.
- (4) The Debtor and Abax will promptly share any due diligence requests received from any third party and, upon request by the other party, will make available to the other party any responses thereto.
- (5) By December 22, the Debtor will provide Abax with available materials relating to valuation of the Debtor, including cash flow forecasts, cash position of the WFOE and VIE, working capital and CapEx requirements for the business, and any other information

it and its professionals are considering in connection with any Restructuring Transaction. Except for materials that may in the future be prepared in anticipation of litigation, Abax will also share and provide copies to the Debtor of all information it has regarding the financial affairs of the Debtor including any information relating to the values it ascribes to the Debtor and every affiliate thereof.

- (6) The Debtor will share any expressions of interest, proposals, letters of intent, terms sheets with Abax as soon as practicable after receipt of such offer. Abax shall also promptly provide a list of, and shall direct all interested parties it knows to have an interest in the Debtor to the Debtor, and shall provide the names and contact information for all additional interested parties it may become aware of as soon as practicable after it becomes aware of such party's interest in the Debtor.

- (7) The "Working Group" to explore a restructuring transaction shall be comprised of a representative of the Debtor (Shuwen Kang and/or Qinan Ji (as determined by the Debtor, and depending upon their respective availability), Jackie Shi (Yongjiang Shi) and J. Gregg Pritchard, CRO), and of Abax (Donald Yang, Rick Yee, or Gracie Mi, as determined by Abax and depending on their respective availability), along with their respective counsel, and financial advisors, as appropriate.

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- (8) Beginning the week of December 16, 2013, the Working Group will hold a conference call at least once a week to coordinate, share information, and seek consensus on a restructuring transaction process that will maximize value of the Debtor.

- (9) The Debtor has provided Abax with a status update on discussions with Finergy Capital ("Finergy") as of November 14, 2013, shall include Abax in any further negotiations with Finergy. Abax shall share all information it obtains regarding Finergy but shall not contact Finergy without notifying the Debtor in advance.

- (10) The Working Group will identify an appropriate financial advisor, broker or investment banker to work with the Debtor and J. Gregg Pritchard on marketing the Debtor's assets (including its interest in its subsidiaries, Shaanxi Xilan Natural Gas Equipment Co. Ltd. and Xilan Energy Co., Ltd.) for sale, investment, refinancing or other recapitalization transaction.

Dated: December 16, 2013
New York, New York

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